STATE OF MAINE
PUBLIC UTILITIES COMMISSION

December 8, 2003

UNION RIVER TELEPHONE COMPANY
Implementation of 2002 Amendments to Chapter 204

Docket No. 2003-489

AMENDED ORDER APPROVING BSCA RATES AND REVENUE LOSS CALCULATIONS (SUBJECT TO TRACKING)

UNION RIVER TELEPHONE COMPANY
Request for Universal Service Funding (Updated Request)

Docket No. 2003-843

ORDER APPROVING REQUEST FOR USF (SUBJECT TO RATE PROCEEDING)

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

In this Order, we approve increases to rates for local exchange service proposed by Union River Telephone Company (Union River or the Company) for the implementation of expanded basic service calling areas (BSCAs) required by December 2002 amendments to Chapter 204 of our Rules. Because the BSCA expansions (to include all contiguous exchanges not presently part of its BSCAs) will result in a substantial access revenue loss for Union River (beyond its ability to make up in local rate increases), we also order initial universal service funding (USF) in a temporary amount pending completion of a rate proceeding that we open today. USF funding is here justified because the access revenue losses the Company will incur as a result of decreasing its access rates to the levels of its interstate access rates that were in effect on January 1, 2003, when combined with the revenue losses resulting from the expansions of its BSCAs, exceed the new revenue obtained from the increases in basic rates (up to the level approaching Verizon's rates) that we permit today.

We approve the Company's calculations for revenue losses and additional costs for the BSCA expansions, subject to tracking requirements described below. As part of the continuing USF proceeding and the rate investigation that we open today in Docket No. 2003-844, we will require Union River to present a plan to decrease its intrastate access rates to the same level as its interstate access rates and to increase its local rates to equal those of Verizon.

I. BACKGROUND

In connection with reducing access rates to interstate levels, the implementation of its BSCA expansions, and anticipated permanent universal service funding (USF), Union River is increasing its local rates by an amount approximately half way between their present levels and those of Verizon. The rate increase is not sufficient to offset the revenue losses, however. Accordingly, Union River has applied for universal service funding to become effective on December 15, 2003. Our USF Rule, Chapter 288, § 3(C)(3), requires local exchange carriers that are USF recipients to establish "local basic service rates that are no less than those of Verizon exchanges that have Basic Service Calling Areas of a similar size." Section 3(D)(2) allows recipients to phase in those local rates.

Initially, the increased local rates and the USF ordered herein will offset the access revenue loss on a revenue neutral basis: after December 15, 2003, the Company will collect the same total amount from access rates, local rates and USF as they previously did from access and local rates. Chapter 288, § 3(C)(1) states that *prior* to granting USF, the Commission must have determined the revenue requirement of the recipient rural LEC "in a rate proceeding completed no earlier than six months prior to the adoption of this Rule… ." The Rule was adopted on July 23, 2001, and Union River has not had a rate proceeding that was completed after January 23, 2001. As discussed in greater detail below, we grant a waiver from that requirement; we expect to complete the rate investigation expeditiously.

Once we have determined Union River's revenue requirement, it is our goal to achieve revenue neutrality on an overall basis. Thus, we expect to balance any decrease in access revenues resulting from access rate reductions and from BSCA expansions with a combination of higher local rates and USF funding. While the computations involved in ensuring revenue neutrality for future access rate changes that Union River will have to make are straightforward, it is much more difficult to achieve revenue neutrality for the BSCA changes in advance because of the difficulty of predicting "take" rates for Premium and Economy calling options and local per-minute rates. We discuss the BSCA implementation and rate effects in greater detail below.

III. UNIVERSAL SERVICE FUNDING

On November 7, 2003 (supplemented by further filings on November 13 and 21) Union River filed information showing its expected revenue loss from the reduction in access rates to interstate levels and from the implementation of BSCA expansions to include all contiguous exchanges not presently included in its BSCAs. Calls to these exchanges are presently at retail toll rates and IXCs pay access charges for originating or terminating those toll calls. When those calls become local, Union River will lose all the access revenue for calls to and from those exchanges. [1]

Union River also provided an estimate of the costs the Company will incur as a result of the BSCA implementation, and associated revenue gains from local rate increases. The estimated costs are BSCA-related capital costs for network upgrades. The local revenue gain estimates include estimated changes in local revenue due to changes in the mix of subscribership to the Premium and Economy options, as well as changes due to the change in the rate (from 25 cents per call to 5 cents a minute) for Economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. As discussed in greater detail below, it is difficult to calculate precisely the rate changes needed to achieve revenue neutrality.

We note that Union River (and USF companies generally) have not proposed local rate increases that are specifically designed to exactly offset the revenue loss that will occur as a result of the access rate reduction and the BSCA expansions. We agree that the Company's approach is appropriate. USF companies are required to increase their local rates to equal those of Verizon as a condition of receiving USF. At this time, we see no reason to require Union River to implement rates that are higher than Verizon's, although that result is permissible under Chapter 288, § 3(C)(3). BSCA expansion diminishes the Company's revenues; it is no less appropriate to cover these revenue losses through USF than it is to cover revenue losses caused by the need to lower access rates.

As noted above, Chapter 288, § 3(D)(2) allows the Commission to phase in Verizon-level local rate increases if raising rates immediately to those levels is "not in the public interest." We allow such a phase-in for Union River because its present rates are substantially below those of Verizon, and the increases to reach Verizon levels might constitute a burden for Union River's customers.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. We interpret that provision to allow a company that will be receiving USF to propose rates that do not attempt to cover the losses and cost increases exactly, as long as the company is on a reasonable path to increasing its rates to Verizon's levels. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted, the LEC may request recovery of the shortfall and propose rates (or a change in USF) that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted, it must return the excess to customers (or the Universal Service Fund) and must propose future rates (or ongoing support) that will collect the correct amount to offset the revenue loss.

[1] The Company has no retail toll revenue; it only provides access to interexchange carriers.

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or by ratepayers of the difference between the estimates embodied in rates (or USF) and actual costs, notwithstanding the fact that Section 5(A) allows a LEC to propose rates (or USF) in advance of implementation that will cover those costs. Because the Company provided few details in support of its estimates of those costs and because we have not subjected the estimates to close examination, we find that it is reasonable, as a condition of granting universal service funding that will cover those costs, that the Company keep records of the actual BSCA-related implementation expenses and investment, and that they provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005. With that information we may consider whether to order a change in future USF funding to reflect the differences between present estimates and actual costs. We do not decide at this time whether we would order reconciliation for the differences during the tracking period.

As noted above, Union River has not had a rate proceeding that was recent enough to allow us to order USF without such a proceeding. Section 6 of Chapter 288 allows us to waive provisions of the Rule provided that the waiver is not inconsistent with the purposes of the Rule. Because of the proximity of the immediate need for support (December 15, 2003), the certainty that Union River will need permanent USF, and the fact that Union River has filed a rate case, we grant a temporary waiver from the rate case requirement of Section 3(C)(1). We expect that the rate investigation, which we open today, will be completed expeditiously. Union River has already filed financial information that will allow us to commence that proceeding immediately.

When we have completed the investigation of Union River's revenue requirement and approved an appropriate plan for further increases in local rates, we will adjust the amount of Union River's USF.

IV. CALCULATION OF THE EFFECTS ON REVENUE FROM BSCA EXPANSIONS, ACCESS RATE REDUCTIONS, AND LOCAL RATE CHANGES; BSCA TRACKING ACCOUNTS

On December 15, 2003, Union River will reduce its intrastate access rates to the level of the interstate rates in effect on January 1, 2003.[2] At the same time, it will lose all access revenue from those toll routes that will become local as result of adding them to BSCAs. As noted above, the Company can calculate the revenue effects of the access rate loss in advance, and, in its November 21 filing, did so correctly.

[2] The Company has not reduced its access rates at any time on or after May 30, 1999, the first required date for access rate reductions under the access parity statute, 35-A M.R.S.A. § 7101-B. Under a previous interpretation of the access parity statute, the Company's access rates produced revenue less than or equal to interstate NECA disbursements.

The interaction between the calculations for those two effects is somewhat complex. In its filings, the Company in effect assumed that the access rate reductions that will take effect on December 15, 2003 occurred *before* the elimination of access and billing and collection (B&C) revenue entirely for the calls (presently interexchange toll) to the contiguous exchanges that will be added to BSCAs, even though both events will occur simultaneously. The Company's approach is reasonable, although it would be equally valid to calculate the effect of the BSCA changes first.

We see no substantive difference between the end results of the two approaches. Neither method over-counts or under-counts and both arrive at the same end result. To determine the amount of total lost access revenue, the Company applied the access rate reduction to all their access minutes (including the minutes that will be lost entirely because of the BSCA expansions). For the subset of access minutes that will be lost entirely due to the BSCA expansions, the Company then applied the difference between the new access rates and $0. They also calculated the associated loss in B&C revenue for those minutes. The alternative method would calculate the revenue effect of eliminating the minutes that will be lost to the BSCA expansions first (using present access rates), and would then determine the revenue effect of the access rate reduction to the remaining (non-BSCA) minutes.

The method used by the Company shows a smaller BSCA revenue loss attributable to the BSCA changes than the alternative approach. For calculational purposes, the Company reduced the access rate prior to eliminating the minutes entirely, leaving only the difference between the *reduced* access rate and $0 as the BSCA-caused loss. The alternative method would show a greater BSCA access revenue loss: by eliminating the BSCA minutes first, the loss per minute would show as the difference between present access rates and $0. Conversely, the effect on the revenue loss due to the access rate reduction is greater using the Company's approach because the minutes that will disappear with the BSCA expansions have not yet been removed; under the alternative approach, they would be removed first, thereby showing a smaller loss.

As noted above, the difference between the two approaches has no effect on the on the amount of the local rate increases and the BSCA tracking accounts. First, to the extent that one method shows a greater (or lesser) BSCA revenue loss, the difference is offset exactly by a lesser (or greater) amount shown for the access rate reduction. Second, as discussed above, the BSCA tracking account is not used for tracking lost access and B&C revenues. Even though the two approaches will produce two different numbers for this loss, once the amount is calculated, it never changes. (The Company must, of course, use the same approach at the end of the tracking process.)

The real purpose of the tracking account is to track the amount of local revenue that will offset the known losses described above. The local replacement revenues include revenues available from the increases to local rates for both the Premium and Economy options and from a new rate of 5 cents per minute for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option (replacing the 25 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from the predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former 25 cents per call rate and might even influence customer choice for the two calling options.

If necessary, we will further adjust USF following the BSCA tracking of local revenue effects. We direct the Company to track the replacement revenues for 12 months and report the results to the Commission on or before March 15, 2005 so that, if necessary, they may be incorporated into the USF that will become effective for the third quarter of 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the November 2003 filings.

V. BSCA TRACKING ACCOUNTS FOR INVESTMENT AND COSTS

Union River shall also track additional investments that it makes to implement BSCA expansions and shall report the results to the Commission on or before March 15, 2005. See discussion in Part III. Tracking should be for a period that covers all BSCA-related expenses and any changes in investment attributable to the BSCA expansions incurred as of January 31, 2005. Results shall be presented in absolute and annualized forms.

The Company may experience other changes in sales that may need to be taken into account in establishing revised USF that will become effective on May 31, 2005. The Company therefore shall file the most recently available billing units for all services by March 15, 2005.

VI. SUMMARY OF REVENUE AND COST CHANGES

Local Rate Revenue Increase	$82,028
Access Revenue Loss	($341,551)
BSCA Revenue Loss (access and billing and collection)	($41,920)
BSCA costs	($1,855)
Universal Service Funding	$303,298

VII. LOCAL RATE CHANGES

A. Residential Rates

Exchange	Present Economy Rate	Economy Increase	New Economy Rate	Present Premium Rate	Premium Increase	New Premium Rate
Aurora	$10.96	$2.04	$13.00	$12.46	$3.54	$16.00
Beddington	$10.10	$2.90	$13.00	$11.60	$4.40	$16.00
Otis	$9.17	$3.83	$13.00	$10.67	$5.33	$16.00

B. Business Rates

Exchange	Present Economy Rate	Economy Increase	New Economy Rate	Present Premium Rate	Premium Increase	New Premium Rate
Aurora	$13.21	$7.79	$21.00	$14.71	$10.29	$25.00
Beddington	$11.85	$9.15	$21.00	$13.35	$11.65	$25.00
Otis	$10.87	1$0.13	$21.00	$12.37	$12.63	$25.00

VIII. ORDERING PARAGRAPHS

Accordingly, we

1. APPROVE the increase proposed by Union River Telephone Company to increase its rates for local exchange service. Union River shall provide advance notice to its customers as soon as feasible, along with notice of calling options and rates for those options available for the basic service calling areas (BSCAs) of each of its exchanges;

2. APPROVE the rate schedules and changes in the terms and conditions (including changes in its basic service calling areas) of Union River Telephone Company, filed on November 20, 2003, except for the portion of page 2, 2nd Revision stating, incorrectly, that the Sullivan exchange is part of the basic service calling area of

the Beddington exchange; Union River shall file corrected pages 1 and 2 that comply with this order without delay; at the request of Union River, the changes to the basic service calling areas shall be effective on December 16, 2003 and the increases in rates for local service shall be effective on January 1, 2003.

3. APPROVE funding from the Maine Universal Service Fund in the amount of $303,298 for Union River Telephone Company, effective from December 15, 2003 until modified by later order;

4. APPROVE the initial calculations by Union River Telephone Company of expected revenue losses and gains and cost changes as a result of BSCA expansions contained in its filing of November 21, 2003, subject to the maintenance by the Company of tracking accounts and the reporting of the tracking results, as described herein;

5. ORDER Union River Telephone Company to maintain tracking accounts from February 1, 2004 until January 31, 2005 for net revenue changes that will occur as a result of expansions of basic service calling areas (BSCAs) that will become effective on December 15, 2003; for that purpose the Company shall hold constant in the tracking account the calculations in its filing of November 19, 2003 for access revenue loss (which reduced access rates first and then eliminated all minutes and revenue for exchanges being added to BSCAs) and the loss of revenue from the elimination of the rate of $.20 per call described herein, and shall track the effects of the local revenue increases approved herein;

6. ORDER Union River Telephone Company, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 5 and changes in the number of lines; to provide a proposal for reimbursement of customers for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order; and to propose rate adjustments for future rates if the rates approved herein result in over-collection;

7. ORDER Union River Telephone Company to maintain a tracking account from the commencement of the incurrence of expenses until January 31, 2005 for changes in their revenue requirement (expenses and investment) resulting from the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and

8. ORDER Union River Telephone Company, on or before March 15, 2005, to file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 8th day of December, 2003

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.